

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 TEGUCIGALPA 000325

SIPDIS

SENSITIVE

STATE FOR EB, DRL/IL, WHA/EPSC, AND WHA/CEN
GUATEMALA FOR AGATT SHUETE
SAN SALVADOR FOR COMMATT DTHOMPSON
DOL FOR ILAB
STATE PLEASE PASS TO USAID, OPIC, EXIM, USTR
STATE PLEASE PASS TO USED IDB, USED WB, USED IMF

E.O. 12958: N/A

TAGS: [ECON](#) [EAGR](#) [EFIN](#) [ETRD](#) [ELAB](#) [EINV](#) [PGOV](#) [HO](#)

SUBJECT: Honduran Econ Highlights: December 2003 - January 2004

REF: Tegucigalpa 232

Contents

Macroeconomics:

- 2004 Budget
- Controversy over Price Freeze
- Fuel Tax Increase
- Remittances on the Rise

Tourism:

- GOH to Develop Tela Bay

Business:

- Banking: Cuscatlan Buys Out Lloyds
- Colonel Sanders Arrives in Honduras

2004 Budget

1. (U) On December 30, 2003, Congress passed the 2004 federal budget. The consideration of the budget, traditionally undertaken in a special December session of Congress, took on particular importance this year, as the government of Honduras worked under the constraint of meeting the prior conditions listed in the preliminary Letter of Intent agreed to with the IMF.

2. (U) The total size of the national budget is 34.5 billion lempiras, up 5.6 percent from the 2003 total of 32.7 billion lempiras. However, taking into account the 6 percent devaluation of the lempira over the course of 2003, the budget actually shrank slightly in dollar terms, from USD 1.935 billion to USD 1.922 billion, a 0.7 percent decrease.

3. (U) As always, the Ministries of Education and Health make up the largest share of the federal budget, comprising 42 percent of the total, down slightly from 43.1 percent in 2003. The Ministry of Education's budget increased by nearly 10 percent, despite the previously determined decreases in salary and benefit hikes imposed by the public salary restructuring law passed on December 19, 2003 (see refTel). The budget for the Ministry of Health decreased by 8.4 percent, a partial result of the salary caps established by the Public Finance law, also passed on December 19.

4. (U) The biggest gainers in the budget are the Ministry of Tourism, which had its budget more than doubled to 201 million lempiras (USD 11.2 million), and the Ministry of Environment and Natural Resources, whose budget increased by nearly 30 percent to 729 million lempiras (USD 10.6 million). The Ministry of Agriculture and the Ministry of the Presidency suffered the largest budget cuts in percentage terms, although certain functions performed by these ministries have been categorized differently in 2004 than in 2003, making a straight year-to-year comparison more difficult. The Ministries of Transport and Finance also experienced sizable budget cuts, of roughly 20 percent.

Price Freeze: Good Intentions, Poor Implementation

5. (SBU) Along with the fiscal measures passed on December 19, Congress simultaneously enacted a price freeze, to be effective for six months, on an extensive list of 159 products (mostly foodstuffs). The intent was to soften the economic blow (and political cost) of the spending and salary measures being passed at the same time, but the effect was to generate confusion.

6. (SBU) Congress apparently adopted the measure without prior consultation with the Ministry of Industry and Trade, which would have the responsibility of enforcing the freeze. The Ministry monitors the prices of only about 40 products and, with only twelve consumer protection inspectors, lacked the capacity to implement such an elaborate price control

system throughout the country.

17. (SBU) IMF officials privately pushed for repeal, given the inevitable distortions the measures would cause. Private sector groups criticized the plan as being impractical and damaging to businesses. Newspapers carried daily reports of price increases in the covered products and the government's inability to curb them, putting the GOH under constant attack. On January 20, Congress cut back the number of products covered to 38, roughly matching products the GOH already monitored.

Fuel tax increase

18. (U) As part of the government's attempts to raise additional revenue, the GOH started the year with an increase in the fuel tax. A decree that went into effect on January 1 raised the per gallon price of gasoline and diesel by 3.7 lempiras (20 U.S. cents), and a second decree in late January raised the price an additional 1.5 lempiras (8 U.S. cents). There have been angry reactions from the transportation sector, which has threatened to increase the price of public transportation, though they have not done so yet.

19. (U) According to GOH officials, the level of the fuel tax will keep changing on a regular basis so that the government can maintain a balanced budget and meet IMF requirements. These changes in the price of fuel will happen on a regular basis, probably once or twice a month. The GOH currently estimates that it will receive around 4 billion lempiras (USD 222 million) in revenue from oil taxes this year.

10. (U) As shown in the table below, Honduras now has the most expensive prices for gasoline and other kinds of fuel in the region.

Country	Premium Gasoline	Regular Gasoline	Diesel
Guatemala	2.02	1.97	1.45
El Salvador	2.08	1.98	1.69
Costa Rica	2.39	2.34	1.73
Nicaragua	2.42	2.32	1.97
Honduras	2.80	2.72	1.95

Price of one gallon, in USD. Source: Honduran Press accounts, quoting the Ministry of Commerce, Guatemala

Remittances and Migration Continue to Rise

11. (U) The Ministry of Foreign Affairs and the National Statistics Institute estimate that Honduras received USD 800 million in family remittances in 2003, a figure which represents approximately 13 percent of the country's GDP. Remittances have increased by USD 96 million (14 percent) over the figure for 2002. Family remittances are currently the second largest source of foreign currency, after the maquila industry.

12. (U) The Ministry of Foreign Affairs estimates that every year around 35,000 Hondurans migrate to other countries, predominantly the U.S., looking for job opportunities. The majority of these immigrants are men between 19 and 29 years old. According to statistics, there is only one woman for every nine men that immigrate, which explains why the majority of those who receive family remittances are women.

13. (U) The Consular Section witnessed a sudden surge in the number of NIV applicants immediately following the announcement of President Bush's immigration reform plan. The announcement of the plan seems to have created the perception among the Honduran public that those who enter the U.S. now, before the plan goes into effect, will be in a better position to gain legal status if the plan is approved by Congress.

Tela Bay - The Next Cancun? GOH Hopes So

14. (U) In early January, Congress approved new legislation that permits the GOH, through the Ministry of Tourism, to develop 312 hectares of prime tourism land, along 2 miles of coastline, in the area of Tela Bay on the north coast. The land, which is owned by the GOH, will be passed to the control of a newly-created consortium, the Tela Bay Tourism Investment and Development company, which will include both private investors and the Ministry of Tourism as members. The hope is that this new legislation will permit investment that the GOH has been unable to undertake on its own.

15. (U) Initial plans for the project were developed in the

early 1990's, but there has been little progress until now. The GOH is planning the construction of seven major resorts, including four and five-star hotels, with a total capacity of 1,920 rooms. A residential area will also be constructed, with a capacity for 168 villas, one mall, a convention center, and a golf course. During 2004, the GOH is investing USD 12 million to provide infrastructure and basic services for the project, while raising money for the additional investments.

16. (SBU) One AmCit, Miguel Garciga, has claimed to own land in the project area and requested Embassy advocacy. Preliminary investigations and discussion with the Tourism Ministry indicate that the AmCit's claim to ownership is unfounded.

Cuscatlan Buys Operations of Lloyds TSB in Central America

17. (U) At the beginning of December of 2003, Cuscatlan Bank from El Salvador bought all the assets of Lloyds TSB Bank in Honduras, Guatemala, and Panama for USD 80 million. The reasons for the sale, according to the Lloyds Bank representative for Latin America, Tim Bower, are that the Salvadoran bank has better conditions to get more out of the Central American market. The sale leaves Citibank as the only U.S. or European bank operating in Honduras, but brings the total number of Central American banks operating in the country to two.

Kentucky Fried Chicken Opens First Restaurant in Honduras

18. (U) In early January, Kentucky Fried Chicken opened its first restaurant in Honduras, located in the northern city of San Pedro Sula. Kentucky Fried Chicken is owned by Yum! Brands, which also operates the Pizza Hut franchise, which is already very successful in Honduras, with 26 restaurants. The President of Yum! Brands International, Graham Allan, attended the opening and declared that further KFC openings are planned. U.S. fast food franchises are well represented in Honduras, and KFC will have to compete for market share against such established fried chicken brands as Church's, Popeye's, and Central American favorite, Pollo Campero.

Palmer